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UNCLAS SECTION 01 OF 03 PARIS 002825

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SUBJECT: THE FRENCH REFERENDUM ON THE EUROPEAN CONSTITUTION:
A PRETEXT TO BLOCK PUBLIC SECTOR REFORMS

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SUMMARY AND COMMENT

11. (SBU) The current debate over French referendum on the EU Constitution has highlighted France's deep-rooted economic and social malaise. With unemployment at a five-year high of just over 10 percent, labor groups and public sector unions have linked outsourcing to this general malaise to justify their "no" vote. Feeding a public fear of outsourcing, public sector unions, who have opposed the government's plans to cut jobs and freeze pay increases in the civil service organized massive protests in France in March, calling the European Constitution "neo-liberal" and predicting it will undermine social conditions in France and lead to even greater job losses. The government, unable to deny that the new Constitution will bring reforms, counters that the new Constitution would protect France's "social model." Nevertheless, the public sector's demonstration in March, and its influence with leftist parties highlights France's growing social divide between the "protected" state sector, which has successfully blocked or considerably slowed down government efforts to implement economic and social reforms, and the "exposed" private sector, which looks to the government for policy initiatives and leadership to dispel its misgivings about a more global and deregulated world. End summary.

SHADES OF MAASTRICHT

12. (U) This is not the first time that the future of the European Union has been exploited by France's "fonctionnaires" to safeguard their privileges against government plans to trim down the state sector and make it more efficient. They disrupted the referendum on the ratification of the Maastricht Treaty in 1992, and the French EU Presidency in 2000, in the name of "jobs and social rights

A CHANCE TO SAY "NO" TO FRENCH REFORMS

13. (U) Public sector unions have been looking for a political hook to rekindle their demands for pay increases and a lifting of the freeze on hiring. The Government announced last year its intention not to replace 50 percent of the civil servants who retire in 2005, i.e. 30,000 civil servants. Furthermore, it offered civil servants a 0.5 percent pay raise, which unions said compared unfavorably with an estimated 2 percent inflation rate. In order not to antagonize the traditionally unruly public sector during the campaign on the French referendum, the GOF went back on its plans earlier this year: a pay raise was granted and civil servant staff reduction dwindled to 7,200, including 3,000 in the state education system.

14. (U) Buoyed by their success, civil servant unions pressed on, and on March 10, teachers, along with hospital, postal, electricity and gas workers combined into one common protest for "improved working conditions and purchasing power." These wide-reaching slogans were designed to tap into growing private sector concerns about job losses due to company relocations and outsourcing. The French economic magazine "L'Expansion" estimated that outsourcing from France to destinations in Eastern Europe and Southeast Asia cost an unprecedented 11,000 jobs in 2004, a figure "more than enough to feed a growing social malaise."

RIDING ON THE FEARS OF A WORSENING JOB DRAIN

15. (U) A poll jointly carried out by "L'Expansion" and

pollster CSA in October 2004 shows that relocation of French companies or multinationals is seen as a "serious phenomenon" by 88 percent of the French population and as a "lasting" one by 70 percent. A third of the population further believes that they or someone they know will lose their job. This is considerably worse than a decade ago, when globalization was perceived as a negative consequence on French jobs. Globalization was demonized by French public sector unions during the 1992 campaign on the ratification of the Maastricht Treaty. France was then facing an unprecedented wave of company closures and restructurings.

16. (U) Today, many French economists stress that the fear of relocations and outsourcing is "irrational" as they accounted for only 1 percent of job losses in 2004. They say this figure is more than offset by the 20,000 jobs created by foreign investment every year. However, the people polled show more level-headedness as to the reasons for the relocations, according to the poll by "Expansion." Some 74 percent believe that "something can be done to prevent relocations," and an overwhelming 84 percent say that the most efficient way is to lower payroll taxes.

PROMOTING TRAINING AND HIGH-TECH JOBS

17. (U) Outsourcing and relocations alone are not to blame for job losses in France, according to French Economist Elie Cohen. He told us recently that over the past three years France had "destroyed" jobs in the high-tech sectors, where it could be a leading player. He blamed the situation on a lack of proper training and adequate funding of research. Another French economist, Lionel Fontagne, underscored the need for better training to allow job seekers to find work. He further noted that preventing outsourcing and relocations could prove harmful to French companies, in terms of competitiveness and productivity. Companies often need a presence near their growth markets. As a case in point, French carmakers Renault and PSA Peugeot Citroen are aiming their production efforts at Eastern Europe, where demand could triple in the coming decade. Renault already manufactures half of its vehicles outside France.

18. (U) A recent government-sponsored report on France's declining industrial base reflects these concerns and takes note of "signs that the French manufacturing industry is starting to lose ground," mostly because it is not sufficiently high-tech oriented. To support R&D in France beyond the tradition nuclear science, aeronautics and space activities, it calls for a "new industrial policy," spearheaded by a new Agency for Industrial Innovation. Recommended by Saint Gobain CEO Jean-Louis Beffa and approved by President Chirac, the new agency will administer industrial initiatives associated with major technological innovation and geared to European or other world markets. Under the direct supervision of the Prime Minister, the new agency will be allocated an initial budget of 2 billion Euros in 2007. Chirac's timely support for this agency and a pro-industrial policy appears to be at least partly motivated by the need to promote employment on the eve of the EU referendum.

19. (U) To address French unemployment, which has recently exceeded the 10 percent "psychological threshold," Chirac has asked his Minister of Employment, Labor and Social Cohesion Jean-Louis Borloo to speed up implementation of his "Social Cohesion" plan, a comprehensive 15.8 billion dollar effort to simultaneously develop employment, housing and equal opportunities over the next five years. Since the March 10 public sector demonstrations, many of the original ambitions of Chirac's long-time wish to "bridge France's Social Divide," have been dropped to focus on government-subsidized contracts and training programs to help 800,000 jobless youth, especially from "disadvantaged neighborhoods." However, many of the jobs created will be in civil service and public hospitals, both locally and nationally. This defeats the original purpose of the Borloo reform, which was to break with the "logic of dependency."

FLEXIBILITY IN THE FRENCH LABOR MARKET POSTPONED INDEFINITELY

10. (U) Efforts to promote employment through greater flexibility in the French job market were cut short by the resignation of former Economy, Finance and Industry Minister Herve Gaymard. Based on a report entitled "From employment uncertainty to mobility," drafted by two well-known French economists, Pierre Cahuc and Francis Kramarz, Gaymard had decided to open up regulated professions such as hairdressers, taxi drivers, butchers, veterinarians, chartered accountants, physiotherapists, hotel managers, notaries, and architects. Cahuc and Kramarz advocated that the quota system for taxi drivers, veterinarians and physiotherapists be lifted, and that the "excessive"

qualifications for chartered accountants, hairdressers and butchers be removed. They estimated that between 200,000 and 500,000 new jobs could be created as a result of the deregulation of these professions. The reform has been shelved for the time being, given protests from a number of protected professions, especially architects, not to mention the extremely adverse reaction of French trade unions to the EU Services directive -- (aka the Bolkestein directive).

WHAT HAPPENS NOW?

11. (U) The GOF had originally wanted to make 2005 the year of "individual freedom of choice," through greater flexibility in work time, labor market regulations, and a lighter, more responsive state structure to ensure "a successful start to the second half of the five-year mandate" of President Chirac. However, the May 29 referendum altered the French political landscape, as it will be the last national election before the 2007 Presidential and Parliamentary elections. Chirac organized it in the hope that his party would recover from a humiliating defeat in the March 2004 regional elections on the basis that "no politician could possibly oppose" the EU Constitution. He allegedly further hoped that the referendum would force the realignment if not the "implosion" of the Socialist Party, coerced into choosing between the Social Democratic pro-EU approach and the more Marxist alternative.

12. (SBU) Instead, the old French demons of the ratification of the Maastricht Treaty reappeared, and the announcement of the referendum heightened protests and fears. Public sector demands were met, subsidies to farmers, and wine growers were distributed, and pro-active industrial policy actions announced. The state, which should have been trimmed down, through attrition, is now bigger than ever. The impression that Chirac and his government lack a global vision for France and the determination to impose it has been reinforced, making rival presidential contender and UMP President Nicolas Sarkozy a more viable alternative to carry out the necessary reforms, which he claims French people are ready to accept. If the outcome of the upcoming referendum matches current negative predictions, Chirac will ironically have paved the way for his political succession rather than his posterity. As one French political commentator succinctly put it: a "No" win on May 29 would be represent a major blunder in the face of history, and would make for a dismal epitaph.
Wolff